

# **Quincy Community Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2007

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## Independent Auditors' Report

Board of Education  
Quincy Community Schools  
Quincy, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quincy Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Quincy Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Quincy Community Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 6, 2007, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Quincy Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

November 6, 2007

**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

As administration of Quincy Community Schools, Counties of Branch and Hillsdale, State of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,143,322 (net assets). Of this amount, \$414,117 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.
- The District's total net assets decreased by \$482,252. The decrease represents the degree to which increases in ongoing expenses have outpaced similar increases in ongoing revenues.
- As of the close of the current fiscal year, the District's aggregated fund balance for the District's governmental funds was \$22,710 or 0.17 percent of the total expenditures of these funds.
- The General Fund had a net change in fund balance of (\$852,076). At the end of the year, the total fund balance for the General Fund was \$334,973 or 2.7 percent of the total General Fund expenditures and outgoing transfers.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant fund – the General Fund.

**Reporting the District as a Whole**

**The Statement of Net Assets and Statement of Activities** – One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities present information about the following:

**Governmental Activities** – All of the District's basic services are considered to be governmental activities, including instruction, support services, community services, athletics, food services, and transfers to other local districts. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities.

**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The district-wide financial statements can be found on pages 1- 2 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements** – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*. The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the Notes to the Financial Statements.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

**Governmental Funds** – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

**Fiduciary Funds** – The District is the fiduciary for various student group activities. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statements can be found on page 7 of this report.

**Additional Information** – The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 8 – 17 of this report.

**Government-Wide Financial Analysis**

The government-wide financial analysis focuses on the net assets and changes in net assets of the District's governmental activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

The following is a summary of the School District's net assets as of June 30, 2007:

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets:</b>		
Current assets	\$ 3,037,805	\$ 2,107,340
Non-current assets	<u>8,752,949</u>	<u>8,624,728</u>
Total assets	<u>11,790,754</u>	<u>10,732,068</u>
<b>Liabilities:</b>		
Current liabilities	3,319,514	1,512,115
Non-current liabilities	<u>4,327,918</u>	<u>4,594,375</u>
Total Liabilities	<u>7,647,432</u>	<u>6,106,490</u>
<b>Net Assets:</b>		
Invested in capital assets – net of related debt	4,155,566	3,772,881
Restricted	(426,361)	(424,539)
Unrestricted	<u>414,117</u>	<u>1,277,236</u>
Total net assets	<u>\$ 4,143,322</u>	<u>\$ 4,625,578</u>

The above analysis focuses on the net assets. The change in net assets of the School District's governmental activities is discussed below. The net assets differ from fund balances and a reconciliation appears on page 4.

By far the largest portion of the District's net assets reflects its investment in capital assets (i.e. land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets of \$(426,361), represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these included amounts restricted for debt service and capital projects. The remaining balance of \$414,117, which is *unrestricted* net assets, may be used to meet the District's ongoing obligations to citizens and creditors.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities which shows the changes in net assets for fiscal year 2007.



**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

The following is a summary of the change in net assets for the year ended June 30, 2007:

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 268,839	\$ 353,322
Operating grants	1,313,779	1,535,564
General revenues:		
Property taxes – general purposes	904,364	1,027,556
Property taxes – debt service	450,816	487,777
Property taxes – sinking fund	275,548	274,630
Grants and state aid	9,226,621	8,888,663
Other	387,006	149,281
Total revenues	<u>12,826,973</u>	<u>12,716,793</u>
<b>Functions/Program Expenses:</b>		
Instruction	7,916,123	7,869,129
Support services	3,453,922	3,818,451
Food service activities	381,781	380,048
Athletic activities	279,317	276,810
Community service	22,431	17,279
Other	478,171	46,994
Interest	231,582	224,273
Depreciation (unallocated)	<u>545,898</u>	<u>498,851</u>
Total expenses	<u>13,309,225</u>	<u>13,131,835</u>
Increase (decrease) in net assets	\$ <u>(482,252)</u>	\$ <u>(415,042)</u>

The District's net assets decreased by \$482,252 during the current fiscal year. The decrease in net assets differs from the change in fund balances and a reconciliation appears on page 6.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

#### **General Fund Budgeting and Operating Highlights**

The School District's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund and the non-major governmental funds for Food Service and Athletics.

During the fiscal year ended June 30, 2007, the School District amended the budgets of these governmental funds once. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The General Fund actual revenue and other financing sources was \$11,510,808. That amount is below the amended budget estimate of \$11,565,628. The \$54,820 variance (0.47%), considered immaterial by management, can be attributed to Federal sources as some of the District's Federal grants were not completely drawn upon. This will allow the District to increase its carryover amount for the next fiscal year.

**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

The actual expenditures and other financing uses of the general fund were \$12,362,884, which is above the amended budget estimate of \$12,273,096. The \$89,788 variance (0.73%) was not the result of any one specific item, but may be attributed to the area of Basic Instruction. More detail of these changes may be found in the district budget amendment resolutions.

The General Fund had total revenues of \$11,510,808 and total expenditures and transfers out of \$12,362,884 with a net change in fund balance of (\$852,076) and an ending fund balance of \$334,973. The current year planned net deficit was due to dramatic increases in the retirement rate, insurance premiums, and energy costs which significantly outpaced State Aid Funding, which has not increased in the past three years.

There were no significant differences between the final budget and actual amounts.

**Capital Asset and Debt Administration**

**Capital Assets** – At the end of the fiscal year 2007, the School District had \$15,292,821 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$6,539,872 in depreciation has been taken over the years. We currently have a net book value of \$8,752,949.

	<b><u>Governmental Activities</u></b>	
	<b>2007</b>	<b>2006</b>
Land	\$ 202,083	\$ 67,000
Buildings and improvements	8,769,143	8,709,743
Site improvements	3,714,927	3,513,384
Furniture and equipment	1,720,741	1,569,838
Buses	885,927	889,494
Total capital assets	15,292,821	14,749,459
Less accumulated depreciation	6,539,872	6,124,733
Net capital assets	\$ 8,752,949	\$ 8,624,726

Major capital asset events during the current fiscal year included the following:

- Purchase of two buses
- Roofing project at Jennings Elementary
- Playground project (Phase I)
- Property purchase for future use

**Long-Term Debt** – At June 30, 2007, the District had total bonded debt outstanding of \$4,734,312, of which \$24,312 is Durant Resolution Bonds that are a legal obligation of the School District, but an annual State of Michigan appropriation is the only revenue source making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the District is under no obligation for payment. The remainder of the debt is \$4,710,000 which is the 2000 Debt Obligation and the 2005 Debt Refinancing Obligation.

	<b><u>Governmental Activities</u></b>	
	<b>2007</b>	<b>2006</b>
2000 Debt Fund Bonds	\$ 840,000	\$ 1,090,000
2005 Refunding Bonds	3,870,000	3,885,000
Durant Resolution Bonds	24,312	24,312
Total	\$ 4,734,312	\$ 4,999,312

The District's total bonded debt decreased by \$265,000 during the current fiscal year.

**Quincy Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2007

State statutes limit the amount of general obligation debt that a school district may issue to 15 percent of its total assessed valuation (State Equalized Value). The current outstanding general obligation debt for Quincy Community Schools is significantly below the current debt limitation.

Additional information on the District's long-term debt can be found in Note 8 on page 15 of this report.

**Economic Factors and Next Year's Budgets and Rates**

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution of 1963, in part, to increase the State sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among school districts. The State Aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation guarantee beginning in fiscal year 1994-1995. The Legislature has appropriated funds to establish a foundation guarantee in 2006-2007 of \$7,085 per pupil for Quincy Community Schools, based upon the District's 1993-1994 revenue. In following years, the foundation guarantee may be adjusted by an index based upon the change in revenues to the State School Aid Fund and change in the total number of pupils statewide, and the spread between the high and low pupil guarantee will be reduced. The foundation guarantee consists of the locally raised property taxes plus State Aid. The source of revenues for the State's contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a statewide property tax of six mills on all property (homestead and non-homestead) (reduced to five mills in 2003 only), a State sales and use tax, a real estate transfer tax and a cigarette tax.

The following factors were considered in preparing the District's budgets for the 2007-2008 fiscal year:

- Foundation allowance of \$7,200 per pupil (although a School Aid Bill was not in effect as of June 30)
- Slight decrease in student enrollment from 2006-2007
- State aid membership based on a 75-25 percent blended count
- Continued discretionary reductions
- Deferred purchase of new buses
- Switch in health insurance coverage to partially self-funded.

**Requests for Information**

This financial report is designed to provide a general overview of the Quincy Community Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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Business Manager  
Quincy Community Schools  
One Educational Parkway  
Quincy, MI 49082  
Phone (517) 639-7141  
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E-mail [ludlowm@quincyschools.org](mailto:ludlowm@quincyschools.org)

**Quincy Community Schools**  
Statement of Net Assets  
June 30, 2007

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Cash and investments	\$ 646,838
Receivables:	
Accounts receivable	29,930
Due from other governmental units	2,230,475
Inventories	9,688
Prepaid expenses	120,874
Capital assets less accumulated depreciation of \$6,539,872	<u>8,752,949</u>
Total assets	<u>11,790,754</u>
<b>Liabilities:</b>	
Accounts payable	57,749
State aid anticipation loan	1,800,000
Accrued payroll	774,363
Accrued interest	34,954
Other liabilities	382,983
Long-term liabilities:	
Bonds payable, due within one year	269,465
Bonds payable, due in more than one year	<u>4,327,918</u>
Total liabilities	<u>7,647,432</u>
<b>Net Assets:</b>	
Investment in capital assets - net of related debt	4,155,566
Restricted for debt service	100,196
Restricted for construction	(526,557)
Unrestricted	<u>414,117</u>
Total net assets	<u>\$ 4,143,322</u>

See Notes to Financial Statements.

# Quincy Community Schools

Statement of Activities  
Year Ended June 30, 2007

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
Primary Government				Net (Expenses) Revenues and Changes in Net Assets
Governmental activities:				
Instruction	\$ 7,916,123	\$ 270	\$ 743,989	\$ (7,171,864)
Support services	3,453,922	-	385,643	(3,068,279)
Food service activities	381,781	199,241	184,147	1,607
Athletic activities	279,317	69,328	-	(209,989)
Community services	22,431	-	-	(22,431)
Other	478,171	-	-	(478,171)
Interest on long-term debt	231,582	-	-	(231,582)
Depreciation (unallocated)	545,898	-	-	(545,898)
Total governmental activities	<u>\$ 13,309,225</u>	<u>\$ 268,839</u>	<u>\$ 1,313,779</u>	<u>(11,726,607)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				904,364
Property taxes, levied for debt services				450,816
Property taxes, levied for sinking fund				275,548
State aid not restricted to specific purposes				9,226,621
Interest and investment earnings				37,334
Other				<u>349,672</u>
Total general revenues				<u>11,244,355</u>
Change in Net Assets				(482,252)
Net Assets - Beginning of Year				<u>4,625,574</u>
Net Assets - End of Year				<u>\$ 4,143,322</u>

See Notes to Financial Statements.

**Quincy Community Schools**  
Balance Sheet  
Governmental Funds  
June 30, 2007

	<b>Other Nonmajor Governmental</b>		
	<b>General</b>	<b>Funds</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and short-term investments	\$ 453,531	\$ 193,307	\$ 646,838
Receivables:			
Accounts receivable	-	29,930	29,930
Due from other governmental units	2,230,475	-	2,230,475
Due from other funds	559,270	-	559,270
Inventories	-	9,688	9,688
Prepaid expenditures	95,874	25,000	120,874
Total assets	<u>\$ 3,339,150</u>	<u>\$ 257,925</u>	<u>\$ 3,597,075</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts payable	\$ 52,490	\$ 5,259	\$ 57,749
State aid anticipation loan	1,856,725	-	1,856,725
Due to other funds	-	559,270	559,270
Salaries payable	771,207	3,156	774,363
Accrued expenditures	323,755	-	323,755
Deferred revenue	-	1,807	1,807
Other liabilities	-	696	696
Total liabilities	<u>3,004,177</u>	<u>570,188</u>	<u>3,574,365</u>
Fund Balances:			
Reserved for debt service	-	135,150	135,150
Reserved for construction	-	(526,557)	(526,557)
Reserved for inventory	-	9,688	9,688
Reserved for prepaid expenditures	95,874	25,000	120,874
Unreserved; undesignated	239,099	44,456	283,555
Total fund balances	<u>334,973</u>	<u>(312,263)</u>	<u>22,710</u>
Total liabilities and fund balances	<u>\$ 3,339,150</u>	<u>\$ 257,925</u>	<u>\$ 3,597,075</u>

See Notes to Financial Statements.

**Quincy Community Schools**  
Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
Governmental Funds  
June 30, 2007

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 22,710</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 15,292,821
Accumulated depreciation is	<u>(6,539,872)</u>
	8,752,949
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds.	
	-
Long-term liabilities not due and payable in the current period and not reported in the funds:	
Bonds payable	(4,734,312)
Deferred amount on refunding	283,247
Unamortized premiums	(146,318)
Deferred revenue recognized during current year in governmental activities.	
	-
Accrued interest payable is not included as a liability in governmental activities.	
	<u>(34,954)</u>
<b>Total Net Assets - Governmental Activities</b>	<b>\$ <u>4,143,322</u></b>

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2007

	<b>General</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues:</b>			
Local sources	\$ 1,154,555	\$ 1,149,762	\$ 2,304,317
State sources	9,514,899	18,070	9,532,969
Federal sources	<u>841,354</u>	<u>166,077</u>	<u>1,007,431</u>
Total revenues	<u>11,510,808</u>	<u>1,333,909</u>	<u>12,844,717</u>
<b>Expenditures:</b>			
Instruction	7,916,123	-	7,916,123
Support services	4,128,041	-	4,128,041
Athletic activities	-	279,317	279,317
Food service activities	-	381,781	381,781
Community services	22,431	-	22,431
Other	82,099	-	82,099
Debt service:			
Principal payments	-	265,000	265,000
Interest and fiscal charges	-	223,400	223,400
Capital outlay	<u>-</u>	<u>396,072</u>	<u>396,072</u>
Total expenditures	<u>12,148,694</u>	<u>1,545,570</u>	<u>13,694,264</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(637,886)</u>	<u>(211,661)</u>	<u>(849,547)</u>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in	-	214,190	214,190
Operating transfers out	<u>(214,190)</u>	<u>-</u>	<u>(214,190)</u>
Total other financing sources (uses)	<u>(214,190)</u>	<u>214,190</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	(852,076)	2,529	(849,547)
<b>Fund Balances - Beginning of Year</b>	<u>1,187,049</u>	<u>(314,792)</u>	<u>872,257</u>
<b>Fund Balances - End of Year</b>	<u>\$ 334,973</u>	<u>\$ (312,263)</u>	<u>\$ 22,710</u>

See Notes to Financial Statements.



# Quincy Community Schools

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Governmental Funds Year Ended June 30, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$ (849,547)

Amounts reported for governmental activities in the Statement

of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (545,898)	
Capital outlay	<u>674,121</u>	128,223

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid. 2,352

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Premium on the refunding debt	11,250	
Recognized interest	(21,786)	
Principal repayments	<u>265,000</u>	254,464

Federal funds not received within appropriate time frame not recorded as revenue in governmental activities. (13,561)

Decrease in taxes receivable is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid. (4,183)

**Change in Net Assets of Governmental Activities** \$ (482,252)

**Quincy Community Schools**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

		<b>Agency Fund - Student Activities</b>
		<hr/>
	<b><u>Assets</u></b>	
Cash and short-term investments		\$ 87,998
Total assets		<u>\$ 87,998</u>
	<b><u>Liabilities</u></b>	
Due to student groups		\$ 87,998
Total liabilities		<u>\$ 87,998</u>

See Notes to Financial Statements.

## **Quincy Community Schools**

### **Notes to Financial Statements**

#### **Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of the Quincy Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

##### **Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

##### **District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide Statements** – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**District-Wide Statements (Continued)** - Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**Fund-Based Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund and Food Service Fund.

**Debt Funds** – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains the 2000 Debt Fund, the 2005 Refunding Debt Fund and the Durant Debt Fund.

**Capital Project Funds** – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains the Building and Site Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Fund Based Statements (Continued)** - The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**Property Taxes** - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-homestead	17.3351
Debt Funds – Homestead and Non-homestead	2.4000
Building and Site Fund – Homestead and Non-homestead	1.4754

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Assets, Liabilities, and Net Assets or Equity (Continued)**

**Receivables and Payables (Continued)** - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Inventories and Prepaid Items** – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Site improvements	15-20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

**Compensated Absences** - The District does not report a liability for compensated absences. Sick leave can be accumulated up to 105 days. At retirement or termination, accumulated sick pay is forfeited. Vacation leave can not be carried over from year to year. Any unused leave at year-end is forfeited.

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Assets, Liabilities, and Net Assets or Equity (Continued)**

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Note 2 – Stewardship, Compliance, and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 3 – Deposits and Investments**

At year-end, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u><b>Governmental Activities</b></u>	<u><b>Fiduciary Funds</b></u>	<u><b>Total Primary Government</b></u>
Cash and investments	\$ 646,838	\$ 87,998	\$ 734,836

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 286,687
Investments in MILAF investment fund	448,099
Petty cash and cash on hand	<u>50</u>
Total	\$ 734,836

**Investment and Deposit Risk**

**Interest Rate Risk** – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the MILAF investment fund had an average maturity of less than 1 year.

**Credit Risk** – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investments policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the MILAF investment fund was rated A-1 by Standard & Poor's, F-1 by Fitch Ratings and P-1 by Moody's Investors Service.

**Custodial Credit Risk – Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$368,912 of the District's bank balance of \$468,912 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Note 4 – Receivables**

Receivables at year end consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$ 2,230,475
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**Quincy Community Schools**  
Notes to Financial Statements

**Note 5 – Capital Assets**

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 67,000	\$ 135,083	\$ -	\$ 202,083
Subtotal	<u>67,000</u>	<u>135,083</u>	<u>-</u>	<u>202,083</u>
Capital assets being depreciated:				
Building and improvements	8,709,743	59,400	-	8,769,143
Site improvements	3,513,384	201,543	-	3,714,927
Buses and other vehicles	889,494	127,192	130,759	885,927
Furniture and equipment	<u>1,569,838</u>	<u>150,903</u>	<u>-</u>	<u>1,720,741</u>
Subtotal	<u>14,682,459</u>	<u>539,038</u>	<u>130,759</u>	<u>15,090,738</u>
Accumulated depreciation:				
Building and improvements	2,670,083	147,924	-	2,818,007
Site improvements	1,790,566	164,280	-	1,954,846
Buses and other vehicles	629,354	72,224	130,759	570,819
Furniture and equipment	<u>1,034,730</u>	<u>161,470</u>	<u>-</u>	<u>1,196,200</u>
Subtotal	<u>6,124,733</u>	<u>545,898</u>	<u>130,759</u>	<u>6,539,872</u>
Net capital assets being depreciated	<u>8,557,726</u>	<u>(6,860)</u>	<u>-</u>	<u>8,550,866</u>
Net capital assets	\$ 8,624,726	\$ 128,223	\$ -	\$ 8,752,949

Depreciation for the fiscal year ended June 30, 2007 totaled \$545,898. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 6 – Interfund Receivables, Payables and Transfers**

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	<b>Due To: General Fund</b>
Due From:	
Food Service Fund	\$ 1,980
Building & Site Fund	556,367
Athletics Fund	<u>923</u>
	<u>\$ 559,270</u>

During the current fiscal year, the General Fund transferred \$214,190 to the Athletics Fund to subsidize the activities of the Athletics Fund.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 7 – Note Payable**

During the year, the District issued a note payable dated August, 2006 maturing August, 2007 in the amount of \$1,800,000 with an interest rate of 3.7%. Debt was issued to meet short-term cash flow needs. The note was renewed in August, 2007 for \$2,700,000.

<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2007</u>
\$ _____ -	\$ 1,800,000	\$ _____ -	\$ 1,800,000

**Note 8 – Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental activities:					
Bonds	\$ 4,999,312	\$ -	\$ 265,000	\$ 4,734,312	\$ 280,000
Deferred amount on refunding	(305,033)	-	(21,786)	(283,247)	(21,785)
Unamortized premium	157,568	-	11,250	146,318	11,250
Total governmental activities	\$ 4,851,847	\$ -	\$ 254,464	\$ 4,597,383	\$ 269,465

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 280,000	\$ 209,726	\$ 489,726
2009	298,007	197,146	495,153
2010	313,151	182,476	495,627
2011	335,383	168,301	503,684
2012	343,795	153,558	497,353
2013 – 2017	1,928,976	516,429	2,445,405
2018 – 2020	1,235,000	100,026	1,335,026
Total	\$ 4,734,312	\$ 1,527,662	\$ 6,261,974

\$5,765,000 – 2000 serial bonds (partially refunded in 2005)  
due in annual installments of \$265,000 – \$295,000  
through May 1, 2010; interest at 5.000%. \$ 840,000

\$3,900,000 – 2005 refunding bonds  
due in annual installments of \$15,000 – \$415,000  
through May, 2020; interest at 3.000% to 5.000% 3,870,000

\$59,320 – Durant Non-Plaintiff serial bonds  
due in annual installments of \$3,007 to \$10,383  
through May 15, 2013; interest at 4.70%. 24,312

Total long-term debt \$ 4,734,312

**Quincy Community Schools**  
Notes to Financial Statements

**Note 8 – Long-Term Debt (Continued)**

**Durant Non-Plaintiff Bond** - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$4,165 associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources. There was no payment during the current year.

The School District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statement. At June 30, 2007 \$3,830,000 of bonds outstanding are considered defeased.

**Note 9 – Risk Management**

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

**Funding Policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**Quincy Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, in any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were approximately \$1,276,000, \$1,154,000, and \$1,030,000, respectively.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Post-Employment Benefits** – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**Note 11 – Federal and State Grants**

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 12 - Sinking Funds**

The Building and Site Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

**Note 13 – Related Party**

During the year ended June 30, 2007, the District purchased services in the amount of \$37,661 from a company owned by a member of the board of education. Of this amount, approximately \$16,400 was related to a playground renovation project and the remaining amount was for standard maintenance and repairs.

**Note 14 – Deficit Fund Balance**

A deficit fund balance in the amount of \$526,557 exists in the Building and Site Fund due to the borrowing of funds from the General Fund for the track project. Anticipated tax levies for the next two years will be set aside to repay the General Fund and eliminate the deficit.

## **Required Supplemental Information**

**Quincy Community Schools**  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2007

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>Revenues:</b>			
Local sources	\$ 1,015,500	\$ 1,130,958	\$ 1,154,555
State sources	9,742,637	9,491,436	9,514,899
Federal sources	900,000	943,234	841,354
Total revenues	<u>11,658,137</u>	<u>11,565,628</u>	<u>11,510,808</u>
<b>Expenditures:</b>			
Instruction:			
Basic programs	6,919,158	7,002,658	7,166,760
Added needs	795,347	783,057	749,363
Support services:			
Pupil	377,073	396,359	394,482
Instructional staff	629,429	599,380	580,567
General administration	283,925	279,047	276,582
School administration	768,364	745,951	745,284
Business	238,663	273,905	251,914
Operation and maintenance	997,365	1,090,544	1,088,078
Security	-	12,532	13,509
Pupil transportation	544,944	616,086	626,088
Central services	156,250	157,277	151,537
Community services	11,700	22,700	22,431
Other	47,500	82,100	82,099
Total expenditures	<u>11,769,718</u>	<u>12,061,596</u>	<u>12,148,694</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(111,581)</u>	<u>(495,968)</u>	<u>(637,886)</u>
<b>Other Financing Sources (Uses):</b>			
Operating transfers out	<u>(203,000)</u>	<u>(211,500)</u>	<u>(214,190)</u>
Total other financing sources (uses)	<u>(203,000)</u>	<u>(211,500)</u>	<u>(214,190)</u>
<b>Net Changes in Fund Balances</b>	<u>(314,581)</u>	<u>(707,468)</u>	<u>(852,076)</u>
<b>Fund Balances - Beginning of Year</b>	<u>1,187,049</u>	<u>1,187,049</u>	<u>1,187,049</u>
<b>Fund Balances - End of Year</b>	<u>\$ 872,468</u>	<u>\$ 479,581</u>	<u>\$ 334,973</u>

## **Other Supplemental Information**

**Quincy Community Schools**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Nonmajor Building and Site Fund	Total
<b><u>Assets</u></b>				
Cash and short-term investments	\$ 28,347	\$ 135,150	\$ 29,810	\$ 193,307
Accounts receivable	29,930	-	-	29,930
Inventory	9,688	-	-	9,688
Prepaid expenditures	25,000	-	-	25,000
Total assets	<u>\$ 92,965</u>	<u>\$ 135,150</u>	<u>\$ 29,810</u>	<u>\$ 257,925</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts payable	\$ 5,259	\$ -	\$ -	\$ 5,259
Due to other funds	2,903	-	556,367	559,270
Salaries payable	3,156	-	-	3,156
Other liabilities	696	-	-	696
Deferred revenue	1,807	-	-	1,807
Total liabilities	<u>13,821</u>	<u>-</u>	<u>556,367</u>	<u>570,188</u>
Fund Balances:				
Reserved for debt service	-	135,150	-	135,150
Reserved for construction	-	-	(526,557)	(526,557)
Reserved for prepaid expenditures	25,000	-	-	25,000
Reserved for inventory	9,688	-	-	9,688
Unreserved:undesignated	44,456	-	-	44,456
Total fund balances	<u>79,144</u>	<u>135,150</u>	<u>(526,557)</u>	<u>(312,263)</u>
Total liabilities and fund balances	<u>\$ 92,965</u>	<u>\$ 135,150</u>	<u>\$ 29,810</u>	<u>\$ 257,925</u>



**Quincy Community Schools**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2007

	<b>Nonmajor Special Revenue Funds</b>	<b>Nonmajor Debt Service Funds</b>	<b>Nonmajor Building and Site Fund</b>	<b>Total</b>
<b>Revenues:</b>				
Local sources	\$ 269,464	\$ 454,403	\$ 425,895	\$ 1,149,762
State sources	18,070	-	-	18,070
Federal sources	<u>166,077</u>	-	-	<u>166,077</u>
Total revenues	<u>453,611</u>	<u>454,403</u>	<u>425,895</u>	<u>1,333,909</u>
<b>Expenditures:</b>				
Athletic activities	279,317	-	-	279,317
Food service activities	381,781	-	-	381,781
Debt service	-	488,400	-	488,400
Capital outlay	<u>-</u>	<u>-</u>	<u>396,072</u>	<u>396,072</u>
Total expenditures	<u>661,098</u>	<u>488,400</u>	<u>396,072</u>	<u>1,545,570</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(207,487)</u>	<u>(33,997)</u>	<u>29,823</u>	<u>(211,661)</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	<u>214,190</u>	-	-	<u>214,190</u>
Total other financing sources (uses)	<u>214,190</u>	-	-	<u>214,190</u>
<b>Net Changes in Fund Balances</b>	6,703	(33,997)	29,823	2,529
<b>Fund Balances - Beginning of Year</b>	<u>72,441</u>	<u>169,147</u>	<u>(556,380)</u>	<u>(314,792)</u>
<b>Fund Balances - End of Year</b>	<u>\$ 79,144</u>	<u>\$ 135,150</u>	<u>\$ (526,557)</u>	<u>\$ (312,263)</u>

**Quincy Community Schools**  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2007

	<b>Athletics</b>	<b>Food</b>	
	<b>Fund</b>	<b>Service</b>	<b>Total</b>
		<b>Fund</b>	
<b><u>Assets</u></b>			
Cash and short-term investments	\$ 4,440	\$ 23,907	\$ 28,347
Accounts receivable	-	29,930	29,930
Inventory	-	9,688	9,688
Prepaid expenditures	-	25,000	25,000
Total assets	<u>\$ 4,440</u>	<u>\$ 88,525</u>	<u>\$ 92,965</u>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 5,259	\$ 5,259
Due to other funds	923	1,980	2,903
Deferred revenue	-	1,807	1,807
Salaries payable	1,683	1,473	3,156
Other liabilities	-	696	696
Total liabilities	<u>2,606</u>	<u>11,215</u>	<u>13,821</u>
<b>Fund Balances:</b>			
Reserved for inventory	-	9,688	9,688
Reserved for prepaid expenditures	-	25,000	25,000
Unreserved: undesignated	1,834	42,622	44,456
Total fund balances	<u>1,834</u>	<u>77,310</u>	<u>79,144</u>
Total liabilities and fund balances	<u>\$ 4,440</u>	<u>\$ 88,525</u>	<u>\$ 92,965</u>

**Quincy Community Schools**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2007

	<b>Athletics Fund</b>	<b>Food Service Fund</b>	<b>Total</b>
<b>Revenues:</b>			
Local sources:			
Earnings on investments & deposits	\$ 25	\$ 870	\$ 895
Food sales	-	199,241	199,241
Athletics	<u>69,328</u>	<u>-</u>	<u>69,328</u>
Total local sources	<u>69,353</u>	<u>200,111</u>	<u>269,464</u>
State sources:			
Restricted	<u>-</u>	<u>18,070</u>	<u>18,070</u>
Total State sources	<u>-</u>	<u>18,070</u>	<u>18,070</u>
Federal sources:			
Received through State	<u>-</u>	<u>166,077</u>	<u>166,077</u>
Total federal sources	<u>-</u>	<u>166,077</u>	<u>166,077</u>
Total revenues	<u>69,353</u>	<u>384,258</u>	<u>453,611</u>
<b>Expenditures:</b>			
Salaries	165,872	87,603	253,475
Employee benefits	37,279	37,475	74,754
Purchased services	39,341	56,260	95,601
Supplies and materials	36,825	167,954	204,779
Capital outlay	-	794	794
Other	<u>-</u>	<u>31,695</u>	<u>31,695</u>
Total expenditures	<u>279,317</u>	<u>381,781</u>	<u>661,098</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(209,964)</u>	<u>2,477</u>	<u>(207,487)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	<u>214,190</u>	<u>-</u>	<u>214,190</u>
Total other financing sources (uses)	<u>214,190</u>	<u>-</u>	<u>214,190</u>
<b>Net Changes in Fund Balances</b>	4,226	2,477	6,703
<b>Fund Balances - Beginning of Year</b>	<u>(2,392)</u>	<u>74,833</u>	<u>72,441</u>
<b>Fund Balances - End of Year</b>	<u>\$ 1,834</u>	<u>\$ 77,310</u>	<u>\$ 79,144</u>

**Quincy Community Schools**  
Combining Balance Sheet  
Nonmajor Debt Service Funds  
June 30, 2007

	2005		2000		Durant		Totals
	Refunding		Debt Fund		Debt Fund		
<b><u>Assets</u></b>							
Cash and short-term investments	\$	94,281	\$	40,869	\$	-	\$ 135,150
Total assets	\$	94,281	\$	40,869	\$	-	\$ 135,150
<b><u>Fund Balances</u></b>							
Fund Balances:							
Reserved	\$	94,281	\$	40,869	\$	-	\$ 135,150
Total fund balances		94,281		40,869		-	135,150
Total fund balances	\$	94,281	\$	40,869	\$	-	\$ 135,150

**Quincy Community Schools**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Debt Service Funds  
Year Ended June 30, 2007

	<b>2005</b>	<b>2000</b>	<b>Durant</b>	
	<b>Refunding</b>	<b>Debt</b>	<b>Debt</b>	
	<b>Debt Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Total</b>
<b>Revenues:</b>				
Local sources:				
Taxes	\$ 168,780	\$ 282,036	\$ -	\$ 450,816
Earnings on investments & deposits	<u>1,294</u>	<u>2,293</u>	<u>-</u>	<u>3,587</u>
Total local sources	<u>170,074</u>	<u>284,329</u>	<u>-</u>	<u>454,403</u>
 Total revenues	 <u>170,074</u>	 <u>284,329</u>	 <u>-</u>	 <u>454,403</u>
<b>Expenditures:</b>				
Redemption of principal	15,000	250,000	-	265,000
Interest on debt	168,175	54,500	-	222,675
Miscellaneous	<u>450</u>	<u>275</u>	<u>-</u>	<u>725</u>
Total expenditures	<u>183,625</u>	<u>304,775</u>	<u>-</u>	<u>488,400</u>
 <b>Revenues Over (Under) Expenditures</b>	 <u>(13,551)</u>	 <u>(20,446)</u>	 <u>-</u>	 <u>(33,997)</u>
 <b>Net Changes in Fund Balances</b>	 (13,551)	 (20,446)	 -	 (33,997)
 <b>Fund Balances - Beginning of Year</b>	 <u>107,832</u>	 <u>61,315</u>	 <u>-</u>	 <u>169,147</u>
 <b>Fund Balances - End of Year</b>	 <u>\$ 94,281</u>	 <u>\$ 40,869</u>	 <u>\$ -</u>	 <u>\$ 135,150</u>

**Quincy Community Schools**  
**Comparative Balance Sheets**  
**General Fund**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
Cash and short-term investments	\$ 453,531	\$ 35,698
Accounts receivable	-	1,688
Due from other funds	559,270	570,338
Due from other governmental units	2,230,475	1,798,620
Prepaid expenditures	<u>95,874</u>	<u>-</u>
 Total assets	 <u>\$ 3,339,150</u>	 <u>\$ 2,406,344</u>
 <b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts payable	\$ 52,490	\$ 144,359
State aid anticipation loan	1,856,725	-
Due to other funds	-	2,709
Accrued expenditures	323,755	219,246
Salaries payable	771,207	772,173
Deferred revenue	-	13,561
Other liabilities	<u>-</u>	<u>67,247</u>
Total liabilities	<u>3,004,177</u>	<u>1,219,295</u>
Fund Balances:		
Reserved for prepaid expenditures	95,874	-
Unreserved: undesignated	<u>239,099</u>	<u>1,187,049</u>
Total fund balances	<u>334,973</u>	<u>1,187,049</u>
 Total liabilities and fund balances	 <u>\$ 3,339,150</u>	 <u>\$ 2,406,344</u>

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	2007		Variance -	Prior Year
	Budget	Actual	Favorable (Unfavorable)	Actual
<b>Revenues:</b>				
Local sources:				
Property tax	\$ 915,869	\$ 922,108	\$ 6,239	\$ 1,014,564
Regular tuition	500	270	(230)	1,330
Earnings on investments & deposits	29,605	32,505	2,900	29,218
Rentals	1,000	960	(40)	1,200
Miscellaneous	<u>183,984</u>	<u>198,712</u>	<u>14,728</u>	<u>105,798</u>
Total local sources	<u>1,130,958</u>	<u>1,154,555</u>	<u>23,597</u>	<u>1,152,110</u>
State sources:				
Unrestricted	9,211,120	9,226,621	15,501	8,888,663
Restricted	279,116	288,278	9,162	333,144
Other	<u>1,200</u>	<u>-</u>	<u>(1,200)</u>	<u>19,657</u>
Total State sources	<u>9,491,436</u>	<u>9,514,899</u>	<u>23,463</u>	<u>9,241,464</u>
Federal sources:				
Received through State	<u>943,234</u>	<u>841,354</u>	<u>(101,880)</u>	<u>980,739</u>
Total federal sources	<u>943,234</u>	<u>841,354</u>	<u>(101,880)</u>	<u>980,739</u>
Interdistrict sources:				
Driver education reimbursement	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,686</u>
Total interdistrict sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,686</u>
Total revenues	<u>11,565,628</u>	<u>11,510,808</u>	<u>(54,820)</u>	<u>11,448,999</u>

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	<u>2007</u>		<u>Variance - Favorable (Unfavorable)</u>	<u>Prior Year Actual</u>
	<u>Budget</u>	<u>Actual</u>		
<b>Expenditures:</b>				
<b>Instruction:</b>				
Basic programs:				
Elementary				
Salaries	\$ 1,857,204	\$ 1,876,546	\$ (19,342)	\$ 1,741,636
Employee benefits	811,927	825,811	(13,884)	790,245
Purchased services	63,075	64,204	(1,129)	65,965
Supplies and materials	119,670	171,494	(51,824)	244,974
Capital outlay	-	-	-	1,503
Other	<u>2,270</u>	<u>2,259</u>	<u>11</u>	<u>803</u>
Total elementary	<u>2,854,146</u>	<u>2,940,314</u>	<u>(86,168)</u>	<u>2,845,126</u>
Middle/Junior high				
Salaries	1,182,774	1,198,303	(15,529)	1,149,705
Employee benefits	558,644	577,814	(19,170)	562,450
Purchased services	35,515	36,301	(786)	33,477
Supplies and materials	68,755	79,088	(10,333)	46,868
Capital outlay	3,475	5,971	(2,496)	7,441
Other	<u>900</u>	<u>708</u>	<u>192</u>	<u>2,208</u>
Total middle/junior high	<u>1,850,063</u>	<u>1,898,185</u>	<u>(48,122)</u>	<u>1,802,149</u>
High school				
Salaries	1,520,168	1,522,298	(2,130)	1,516,951
Employee benefits	614,281	627,093	(12,812)	642,173
Purchased services	67,125	80,524	(13,399)	71,217
Supplies and materials	94,975	95,872	(897)	81,801
Capital outlay	1,450	2,008	(558)	13,488
Other	<u>450</u>	<u>466</u>	<u>(16)</u>	<u>76,541</u>
Total high school	<u>2,298,449</u>	<u>2,328,261</u>	<u>(29,812)</u>	<u>2,402,171</u>
Total basic programs	<u>7,002,658</u>	<u>7,166,760</u>	<u>(164,102)</u>	<u>7,049,446</u>
Added needs:				
Special education				
Salaries	213,309	213,896	(587)	209,313
Employee benefits	81,230	77,208	4,022	81,484
Purchased services	-	-	-	198
Supplies and materials	<u>2,600</u>	<u>2,528</u>	<u>72</u>	<u>3,410</u>
Total special education	<u>297,139</u>	<u>293,632</u>	<u>3,507</u>	<u>294,405</u>



**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
In Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	2007		Variance -	Prior Year
	Budget	Actual	Favorable (Unfavorable)	Actual
<b>Instruction (Continued):</b>				
Compensatory education				
Salaries	\$ 344,278	\$ 322,631	\$ 21,647	\$ 341,421
Employee benefits	96,240	87,795	8,445	100,914
Purchased services	27,650	26,191	1,459	37,645
Supplies and materials	17,750	19,114	(1,364)	24,020
Capital outlay	-	-	-	21,278
Total compensatory education	485,918	455,731	30,187	525,278
 Total added needs	783,057	749,363	33,694	819,683
 Total instruction	7,785,715	7,916,123	(130,408)	7,869,129
<b>Support Services:</b>				
Pupil:				
Guidance services				
Salaries	197,086	194,630	2,456	198,365
Employee benefits	81,041	80,023	1,018	72,633
Purchased services	12,950	12,755	195	12,132
Supplies and materials	4,350	4,697	(347)	3,302
Other	-	167	(167)	-
Total guidance services	295,427	292,272	3,155	286,432
 Health services				
Purchased services	14,872	15,356	(484)	12,903
Supplies	450	537	(87)	745
Total health services	15,322	15,893	(571)	13,648
 Social worker				
Salaries	55,129	55,129	-	54,148
Employee benefits	27,956	28,769	(813)	25,028
Purchased services	2,350	2,242	108	867
Supplies and materials	175	177	(2)	161
Total social worker	85,610	86,317	(707)	80,204
 Total pupil	396,359	394,482	1,877	380,284
<b>Instructional staff:</b>				
Improvement of instruction				
Salaries	183,636	202,862	(19,226)	204,314
Employee benefits	58,423	66,582	(8,159)	63,678
Purchased services	8,500	14,359	(5,859)	14,522
Supplies and materials	8,500	5,639	2,861	15,930
Other	250	219	31	329
Total improvement of instruction	259,309	289,661	(30,352)	298,773

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	<u>2007</u>		<u>Variance -</u>	<u>Prior Year</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u>
<b>Support Services (Continued):</b>				
Instructional staff (continued):				
Library				
Salaries	\$ 152,753	\$ 152,756	\$ (3)	\$ 160,468
Employee benefits	56,362	56,249	113	60,470
Purchased services	9,825	9,778	47	7,203
Supplies and materials	12,425	12,499	(74)	14,018
Capital outlay	400	399	1	337
Total library	<u>231,765</u>	<u>231,681</u>	<u>84</u>	<u>242,496</u>
Testing services				
Purchased services	-	480	(480)	3,112
Supplies	1,000	994	6	7,660
Total testing services	<u>1,000</u>	<u>1,474</u>	<u>(474)</u>	<u>10,772</u>
Supervision of instructional staff				
Salaries	76,945	41,446	35,499	75,405
Employee benefits	30,361	16,126	14,235	29,581
Purchased services	-	179	(179)	54
Total supervision of instructional staff	<u>107,306</u>	<u>57,751</u>	<u>49,555</u>	<u>105,040</u>
Total instructional staff	<u>599,380</u>	<u>580,567</u>	<u>18,813</u>	<u>657,081</u>
General administration:				
Board of education				
Salaries	2,910	2,565	345	3,990
Employee benefits	155	130	25	276
Purchased services	20,960	22,280	(1,320)	16,708
Other	10,750	10,404	346	10,578
Total board of education	<u>34,775</u>	<u>35,379</u>	<u>(604)</u>	<u>31,552</u>
Executive administration				
Salaries	145,929	145,708	221	146,014
Employee benefits	54,588	52,049	2,539	59,180
Purchased services	38,945	38,647	298	39,392
Supplies and materials	2,160	2,172	(12)	2,454
Other	2,650	2,627	23	2,895
Total executive administration	<u>244,272</u>	<u>241,203</u>	<u>3,069</u>	<u>249,935</u>
Total general administration	<u>279,047</u>	<u>276,582</u>	<u>2,465</u>	<u>281,487</u>

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	<u>2007</u>		<u>Variance - Favorable (Unfavorable)</u>	<u>Prior Year Actual</u>
	<u>Budget</u>	<u>Actual</u>		
<b>Support Services (Continued):</b>				
School administration:				
Office of the principal				
Salaries	\$ 529,741	\$ 528,942	\$ 799	\$ 528,995
Employee benefits	187,485	187,895	(410)	190,958
Purchased services	8,550	8,216	334	11,691
Supplies and materials	7,850	7,927	(77)	8,219
Capital outlay	6,225	6,221	4	4,895
Other	<u>4,100</u>	<u>3,552</u>	<u>548</u>	<u>2,612</u>
Total office of the principal	<u>743,951</u>	<u>742,753</u>	<u>1,198</u>	<u>747,370</u>
Graduation expenses				
Supplies and materials	<u>2,000</u>	<u>2,531</u>	<u>(531)</u>	<u>2,193</u>
Total school administration	<u>745,951</u>	<u>745,284</u>	<u>667</u>	<u>749,563</u>
Business:				
Fiscal services				
Salaries	102,696	102,671	25	97,722
Employee benefits	39,694	39,073	621	32,734
Purchased services	10,575	10,922	(347)	14,113
Other	<u>1,650</u>	<u>4,323</u>	<u>(2,673)</u>	<u>1,680</u>
Total fiscal services	<u>154,615</u>	<u>156,989</u>	<u>(2,374)</u>	<u>146,249</u>
Other business services				
Supplies and materials	23,940	23,940	-	25,492
Other	<u>95,350</u>	<u>70,985</u>	<u>24,365</u>	<u>39,782</u>
Total fiscal services	<u>119,290</u>	<u>94,925</u>	<u>24,365</u>	<u>65,274</u>
Total business	<u>273,905</u>	<u>251,914</u>	<u>21,991</u>	<u>211,523</u>
Operation & maintenance of plant :				
Salaries	350,124	343,946	6,178	354,322
Employee benefits	190,799	193,133	(2,334)	197,402
Purchased services	193,829	194,473	(644)	143,434
Supplies and materials	318,130	318,831	(701)	299,925
Capital outlay	32,750	32,795	(45)	66,614
Other	<u>4,912</u>	<u>4,900</u>	<u>12</u>	<u>2,148</u>
Total operation & maintenance of plant	<u>1,090,544</u>	<u>1,088,078</u>	<u>2,466</u>	<u>1,063,845</u>
Security:				
Salaries	2,843	2,843	-	11,078
Employee benefits	789	788	1	3,000
Purchased services	<u>8,900</u>	<u>9,878</u>	<u>(978)</u>	<u>-</u>
Total security	<u>12,532</u>	<u>13,509</u>	<u>(977)</u>	<u>14,078</u>

**Quincy Community Schools**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2007  
(With Comparative Amounts for the Prior Year)

	<u>2007</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>Prior Year Actual</u>
<b>Support Services (Continued):</b>				
Pupil transportation services:				
Salaries	\$ 283,655	\$ 281,703	\$ 1,952	\$ 273,714
Employee benefits	121,131	122,552	(1,421)	121,065
Purchased services	19,050	21,901	(2,851)	22,250
Supplies and materials	98,450	106,161	(7,711)	93,385
Capital outlay	93,800	93,771	29	1,329
Total pupil transportation services	<u>616,086</u>	<u>626,088</u>	<u>(10,002)</u>	<u>511,743</u>
Central services:				
Purchased services	3,200	6,841	(3,641)	2,638
Supplies	3,950	5,067	(1,117)	784
Capital outlay	<u>150,127</u>	<u>139,629</u>	<u>10,498</u>	<u>26,348</u>
Total technology	<u>157,277</u>	<u>151,537</u>	<u>5,740</u>	<u>29,770</u>
Total support services	<u>4,171,081</u>	<u>4,128,041</u>	<u>43,040</u>	<u>3,899,374</u>
<b>Community Services:</b>				
Supplies and materials	<u>22,700</u>	<u>22,431</u>	<u>269</u>	<u>17,279</u>
<b>Other Transactions:</b>				
Coldwater SE	<u>82,100</u>	<u>82,099</u>	<u>1</u>	<u>46,434</u>
Total other transactions	<u>82,100</u>	<u>82,099</u>	<u>1</u>	<u>46,434</u>
Total expenditures	<u>12,061,596</u>	<u>12,148,694</u>	<u>(87,098)</u>	<u>11,832,216</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(495,968)</u>	<u>(637,886)</u>	<u>(141,918)</u>	<u>(383,217)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers out	<u>(211,500)</u>	<u>(214,190)</u>	<u>(2,690)</u>	<u>(198,471)</u>
<b>Net Changes in Fund Balances</b>	<u>(707,468)</u>	<u>(852,076)</u>	<u>(144,608)</u>	<u>(581,688)</u>
<b>Fund Balances - Beginning of Year</b>	<u>1,187,049</u>	<u>1,187,049</u>	<u>-</u>	<u>1,768,737</u>
<b>Fund Balances - End of Year</b>	<u>\$ 479,581</u>	<u>\$ 334,973</u>	<u>\$ (144,608)</u>	<u>\$ 1,187,049</u>

**Quincy Community Schools**  
Schedule of Bonded Indebtedness  
June 30, 2007

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Amount of Annual Maturity</u>	<u>Bonds Outstanding June 30, 2007</u>
2000 Building & Site Bonds	October 25, 2000	\$ 5,765,000	5.000%	5/1/2008	\$ 42,000	\$ 265,000	\$ 265,000
			5.000%	5/1/2009	28,750	280,000	280,000
			5.000%	5/1/2010	14,750	295,000	295,000
							<u>\$ 840,000</u>

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Amount of Annual Maturity</u>	<u>Bonds Outstanding June 30, 2007</u>
Durant Bonds	September 14, 1998	\$ 59,320	4.70%	5/15/2009	\$ 1,158	\$ 3,007	\$ 3,007
			4.70%	5/15/2010	1,014	3,151	3,151
			4.70%	5/15/2011	2,113	10,383	10,383
			4.70%	5/15/2012	370	3,795	3,795
			4.70%	5/15/2013	189	3,976	3,976
							<u>\$ 24,312</u>

**Quincy Community Schools**  
Schedule of Bonded Indebtedness  
June 30, 2007

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Amount of Annual Maturity</u>	<u>Bonds Outstanding June 30, 2007</u>
2005 Refunding Bonds	June 15, 2005	\$ 3,900,000	3.000%	5/1/2008	\$ 167,726	\$ 15,000	\$ 15,000
			3.250%	5/1/2009	167,238	15,000	15,000
			3.500%	5/1/2010	166,712	15,000	15,000
			3.500%	5/1/2011	166,188	325,000	325,000
			4.000%	5/1/2012	153,188	340,000	340,000
			4.000%	5/1/2013	139,588	355,000	355,000
			5.000%	5/1/2014	121,838	370,000	370,000
			5.000%	5/1/2015	103,338	390,000	390,000
			5.000%	5/1/2016	83,838	405,000	405,000
			4.000%	5/1/2017	67,638	405,000	405,000
			4.250%	5/1/2018	50,426	410,000	410,000
			4.250%	5/1/2019	33,000	410,000	410,000
			4.000%	5/1/2020	16,600	415,000	415,000
							<u>\$ 3,870,000</u>

# **Quincy Community Schools**

Single Audit Report

Year Ended June 30, 2007

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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Education  
Quincy Community Schools  
Quincy, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quincy Community Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Quincy Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described as Findings 2007-1, 2007-2, and 2007-3 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Board of Education  
Quincy Community Schools  
Quincy, Michigan

**Internal Control Over Financial Reporting (Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described as 2007-1 and 2007-3 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses in internal control over financial reporting.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Quincy Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Quincy Community Schools in a separate letter dated November 6, 2007.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

November 6, 2007



**Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133**

Board of Education  
Quincy Community Schools  
Quincy, Michigan

**Compliance**

We have audited the compliance of Quincy Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Quincy Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Quincy Community Schools' management. Our responsibility is to express an opinion on Quincy Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Quincy Community Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Quincy Community Schools' compliance with those requirements.

In our opinion, Quincy Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

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**WILLIS & JURASEK, P.C.**

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### **Internal Control Over Compliance**

The management of Quincy Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Quincy Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quincy Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated November 6, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Schools' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

November 6, 2007

**Quincy Community Schools**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2006	Prior Year Expenditures	Adjustments Prior Years	Current Year Cash Payment Received	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2007
<b>U.S. Department of Agriculture</b>								
Child Nutrition Cluster:								
Passed through MI Department of Education:								
National School Lunch Program								
Sec. 4 - All	10.555	\$ 21,997	\$ -	\$ -	\$ -	\$ 21,997	\$ 26,437	\$ 4,440
Sec. 11 - Free and Reduced	10.555	84,647	-	-	-	84,647	102,439	17,792
Total National School Lunch Program	10.555	106,644	-	-	-	106,644	128,876	22,232
National School Lunch Breakfast								
	10.553	17,717	-	-	-	17,717	22,854	5,137
Total Child Nutrition Cluster		124,361	-	-	-	124,361	151,730	27,369
Food Distribution:								
Entitlement Commodities	10.550	22,271	-	-	-	13,991	13,991	-
Bonus Commodities	10.550	N/A	-	-	-	356	356	-
		22,271	-	-	-	14,347	14,347	-
Total United States Department of Agriculture		146,632	-	-	-	138,708	166,077	27,369
<b>U.S. Department of Education</b>								
Passed through MI Department of Education:								
Title I:								
061530-0506	84.010	480,344	21,052	480,344	-	21,052	-	-
061530-0607	84.010	17,320	-	-	-	-	17,320	17,320
071530-0607	84.010	504,339	-	-	-	133,735	467,442	333,707
Total Title I	84.010	1,002,003	21,052	480,344	-	154,787	484,762	351,027
Title V:								
060250-0506	84.298	5,697	5,697	5,697	-	5,697	-	-
060250-0607	84.298	3,684	-	-	-	-	3,684	3,684
070250-0607	84.298	1,825	-	-	-	-	1,825	1,825
Total Title V	84.298	11,206	5,697	5,697	-	5,697	5,509	5,509
Title IID:								
064290-0506	84.318	-	(9,284)	-	-	(9,284)	-	-
064290-0607	84.318	9,284	-	-	-	-	9,284	9,284
074290-0607	84.318	5,177	-	-	-	-	5,177	5,177
Total Title IID	84.318	14,461	(9,284)	-	-	(9,284)	14,461	14,461

**Quincy Community Schools**  
Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2006	Prior Year Expenditures	Adjustments Prior Years	Current Year Cash Payment Received	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2007
U.S. Department of Education (Continued)								
Passed through MI Department of Education (Continued):								
Title II:								
070520-0607	84.367	\$ 94,687	\$ -	\$ -	\$ -	\$ -	\$ 94,687	\$ 94,687
Total Title II	84.367	<u>94,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,687</u>	<u>94,687</u>
Title VIB:								
060660-0506	84.358B	24,480	(5,704)	24,480	-	(5,704)	-	-
070660-0607	84.358B	<u>20,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,254</u>	<u>20,254</u>
Total Title VIB	84.358B	<u>44,734</u>	<u>(5,704)</u>	<u>24,480</u>	<u>-</u>	<u>(5,704)</u>	<u>20,254</u>	<u>20,254</u>
Reading First State Grant:								
052930-0506	84.357	344,250	108,138	344,250	-	108,138	-	-
072930-0607	84.357	<u>242,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,541</u>	<u>208,120</u>	<u>156,579</u>
Total Reading First State Grant	84.357	<u>586,800</u>	<u>108,138</u>	<u>344,250</u>	<u>-</u>	<u>159,679</u>	<u>208,120</u>	<u>156,579</u>
Emergency Impact Aid	84.938C	<u>1,800</u>	<u>1,800</u>	<u>1,800</u>	<u>-</u>	<u>1,800</u>	<u>-</u>	<u>-</u>
Total United States Department of Education		<u>1,755,691</u>	<u>121,699</u>	<u>856,571</u>	<u>-</u>	<u>306,975</u>	<u>827,793</u>	<u>642,517</u>
		<u>\$ 1,902,323</u>	<u>\$ 121,699</u>	<u>\$ 856,571</u>	<u>\$ -</u>	<u>\$ 445,683</u>	<u>\$ 993,870</u>	<u>\$ 669,886</u>

**Quincy Community Schools**  
Schedule of Reconciliation of Revenues with  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

	<u><b>Amount</b></u>
Revenue from Federal sources - per financial statements (includes all funds)	\$1,007,431
Deferred revenue per prior year financial statements due to fund reimbursement not received within recognition period	<u>(13,561)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ 993,870

**Quincy Community Schools**  
Notes to Schedule of Expenditures of Federal Awards

**Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Quincy Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.

**Expenditure Reports**

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

**Grant Section Auditor's Report**

Management has utilized the Grant Section Auditor's Report (Form R-7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.



**Quincy Community Schools**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

**Section I – Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness identified?	<u>  X  </u>	yes	<u>          </u> no
Significant deficiencies identified that are not considered to be material weaknesses	<u>  X  </u>	yes	<u>          </u> no
Noncompliance material to financial statements noted	<u>          </u>	yes	<u>  X  </u> no

Federal Awards

Internal control over major programs:			
Material weakness identified:	<u>          </u>	yes	<u>  X  </u> no
Significant deficiencies identified that are not considered to be material weaknesses	<u>          </u>	yes	<u>  X  </u> no

Typed of auditor's report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133.	<u>          </u>	yes	<u>  X  </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I

Dollar threshold used to distinguish between Type A and type B programs:	<u>  \$ 300,000  </u>
Auditee qualified as low-risk	<u>          </u> yes <u>  X  </u> no

**Quincy Community Schools**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

**Section II – Financial Statement Findings**

**2007-1 – Financial Statement Preparation**

Currently, the District's staff prepares the interim internal financial statements that allows for management and oversight of the District, but relies on assistance from us in preparing the year end financial statements and footnotes. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled Communicating Internal Control Related Matters Identified in an Audit (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the year end financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

**Corrective Action Response**

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

**2007-2 – Bank Reconciliation Internal Control**

For the year ended June 30, 2007, bank reconciliations were not prepared timely and the issue was not addressed through internal control. We would recommend that some form of review of the bank reconciliations be done by someone independent of the check writing process to ensure timeliness of preparation and to review for any unusual items. We again communicate this as required by professional standards and believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

**Corrective Action Response**

We agree with the recommendation and will implement a review process of the bank reconciliations. We would expect this situation to be corrected in future years.

**2007-3 – Material Audit Adjustments**

During the course of the audit, we made material adjustments to the fund financial statements that had a material effect on the ending liability balances. These adjustments pertained to the recording of benefit liabilities for self-funded prescription reimbursements. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards # 112.

**Corrective Action Response**

We are aware of the adjustment that was made. We will implement a review of the financial statements to consider any potential adjustments. We would expect this situation to be corrected in future years.

**Section III – Federal Award Findings and Questioned Costs**

None

**Quincy Community Schools**  
Comments on Resolution of Findings from June 30, 2006  
Single Audit Report

Finding:           There were no findings or questioned costs at June 30, 2006.



To the Board of Education  
Quincy Community Schools  
Quincy, Michigan

In planning and performing our audit of the financial statements of Quincy Community Schools for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 6, 2007 on the District's financial statements. Our recommendations and comments are summarized as follows:

#### **Comments:**

##### **Timing of Requests for Federal Fund Reimbursements**

As of June 30, 2007, reimbursements receivable for federal programs totaled approximately \$640,000. We recommend that you implement procedures to request the funds within a more reasonable time frame after incurring expenses to provide a better cash flow picture and encourage timely recordkeeping throughout the year.

##### **Fund Balance**

The General Fund fund balance decreased from approximately \$1,770,000 at June 30, 2005, to \$1,200,000 at June 30, 2006, then to \$335,000 at June 30, 2007. Recommended fund balance level is 15% of general fund revenues or approximately \$1,726,000 at June 30, 2007.

##### **Utilization of Software System**

Congratulations on the implementation of your new software system. The package you purchased has significant capabilities to streamline both accounting functions and reporting. We recommend the Board consider training for key employees to aid in the use of the software.

##### **Building and Site Fund Due to General Fund**

The Building and Site Fund owes the General Fund approximately \$556,000. The tax levies for the final two years should be used to repay the General Fund.

##### **Outstanding Bank Reconciliation Items**

As of year end, there were several outstanding checks in many of the accounts from years prior to June 30, 2006. We recommend these items be voided and reissued.

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#### **WILLIS & JURASEK, P.C.**

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### **IRS 403(b) Final Regulations**

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964. These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008, to be implemented as of January 1, 2009.

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules. A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents. The documents must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions. The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants. Other provisions the regulations cover include notification regarding the exchange of investment products, universal availability, distributions, and terminations.

To ensure that all of these requirements are properly met, we recommend that the District set up a committee of benefit officials and participants to review the current plan and design the future plan. Also, determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (REP) for service. In addition, after the IRS model plan is in place, you may want to offer employee education following the model plan guidelines.

### **New Auditing Standards**

Ten new auditing standards have been released and are effective, or will become effective for next year's audit. The new standards will have an impact on our overall audit approach. These new standards emphasize a risk based approach to the audit and a continued assessment of your internal controls.

### **Deferred Compensation Rules Applicable to Teachers and Similar Employees**

The IRS recently issued new questions and answers related to deferred compensation which can affect teachers and similar employees. When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work ten months but are paid over twelve months would be deferring compensation into a future year. If a school district provides that all employees must spread their pay over twelve months, these rules do not apply. In order to avoid imposition of extra taxes, the employees must give an irrevocable written or electronic election to notify the employer that they want to spread out the compensation prior to the start of the school year. The election can be phrased as effective until further notice to avoid annual updates. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 – 2009 school years.

To the Board of Education  
Quincy Community Schools  
Quincy, Michigan  
Page 3

**Notification Requirements for Non-profit Organizations whose Gross Receipts are \$25,000 or Less, i.e. parent teacher organizations or various school related booster clubs.**

The IRS is now requiring all non-profit organizations to file an annual notice for tax periods beginning after December 31, 2006. Generally, these organizations must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. The annual electronic notice is due by the 15<sup>th</sup> day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008. The notice will require these organizations to provide basic information and to verify that the organization's annual gross receipts are still normally \$25,000 or less.

**Conclusion**

Our comments and recommendations are intended to improve your internal controls and/or improve operations. Please let us know if you would like further assistance with these matters.

This report is intended solely for the information and use of the Board of Education, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the cooperation received from your staff during this engagement and the continued opportunity to be of service.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

November 6, 2007



November 6, 2007

Board of Education  
Quincy Community Schools  
Quincy, Michigan

We have audited the financial statements of Quincy Community Schools for the year ended June 30, 2007, and have issued our report thereon dated November 6, 2007. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Quincy Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

#### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- An asset appraisal was done for the prior year ended June 30, 2004, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). We made material adjustments to the General Fund to record an additional liability as of the year end. In our judgment these journal entries had a significant effect on the financial statements. Management has approved all adjustments.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Willis + Jurasek, P.C.*

Willis & Jurasek, P.C.